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## US Dollar Final Decent - Dangers 2008-2009 Part2

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Part 2 talks about the world post the USD centric world economy. It looks out 1 to 3 years ahead. [Part 1](#) talked about the immediate dangers to the world from a Middle East war, food and energy shortages, and inflation. It looked into late 08 and 09. This part talks about what would happen should the USD begin a final decent to far lower values.

We are now a full year into the credit implosion that started with the collapse of two Bear Stearns hedge funds in Summer of 07. So many dimensions of the world economy have changed dramatically for the worse since that pivotal event...

We can outline many aspects of a disintegrating world economy since Summer 07. But one huge dimension seems to stand out, the dim prospects for the USD going into 09. As we know, the USD has become the key currency to the world economy since WW2. There are several reasons, but one was that the USD was used to stabilize the European currencies during WW2. Following that war, the US became the center of a burgeoning world consumer economy. What happens when the USD is no longer the center to the world economy? That means the end of roughly a century of US economic and currency dominance. That is our discussion.

Since the end of WW2, what was once a boon to the world economy, the USD, is now in a catch 22. The vast interlinked world economy based on a consumer bubble that we are all used to, that generated unprecedented wealth, is going through a radical transformation as the USD falters. The demise of a consumer bubble based on credit since WW2 is faltering, and the USD is suffering from abuses in the credit system and in the US fiscal situation. The pillar of world commerce since WW2 is faltering. All those James Bond movies you saw celebrated the post WW2 world that grew out of the world USD prosperity bubble (the lifestyle u saw in those movies).

In part one of Dangers, Danger period 2008 and 2009, we discussed some ominous dangers that emerged in 2007 and 2008, and will continue to get worse in 2009. These included the US/Israel- Iran nuclear showdown, the threat of a world financial sell off initiated from a collapsing world credit system, rising world inflation, and rising food and energy prices.

This second part of this 'Danger' piece discusses the other main danger, that the USD is faltering, and into 09 has a risk of a major breakdown, if not outright collapse. We have all heard this before, but the difference with now vs the past years is that the US is faced with unprecedented financial disasters that could be putting the final straws on the USD camel's back.

The implications of a serious USD breakdown to the world economy and financial system are staggering, particularly if you consider that this entire world financial system we are immersed in, from East to West, grew from/with the USD economy in a 50 year world consumer and finance bubble that has built since WW2.

Deconstructing that 50 year economic bubble/system will cause massive economic disruption in the world. The problems the central banks and the world economies are facing, as we speak, to deal with the problems the USD is having now are all related to the shaking of what I call the 'world USD economic system'. The onset of the world credit crisis in Summer of 07 was the beginning of this latest phase.

#### Shadow banking system down

The new credit securities markets referred to as the shadow banking system have imploded. This was the practice of creating credit of all types and then selling it as securities to big investors. This new USD centered way of financing worldwide housing and other credit grew to be 50% of all new credit from 2000 roughly. The collapse of these diverse credit securities led to a severe tightening of credit worldwide, as lenders had to pull back drastically to raise capital they lost in the last year. This credit collapse is affecting all the Western nations, from the US all the way to the emerging Eastern EU economies, and will also affect all the major Asian economies by 09 as well.

At the same time, inflation has exploded in only one year, not only in the Western economies but in Asia, and the commodity economies such as the Mid East to Australia. Inflation is 10% and higher in most of the big world economic zones. That level is not tolerable without a severe reduction in living standards for everyone.

#### USD at risk this time

The last time the entire world economy had this kind of economic paralysis was in the 1930s during the Great Depression. At that time, the USD was not on the verge of a collapse. This time the USD is on the verge of a collapse, or at least a major devaluation. That means that the US has far less latitude to do fiscal stimulus and bailouts to combat the present economic emergency spreading over the world. The US can only go so far this time with economic stimulus.

Rising inflation is putting pressure on the US trade partner economies which forces them to raise interest rates, and that causes competition to the USD, while the US has to keep rates low to fend off a total financial and economic meltdown. This is boxing in not only the US economy, but our trade partner's economies and central banks as well. It is very clear that the gigantic financial losses in the US since Summer 07 have spread all over the world as they have become sort of tied at the hip with the US economy, the USD being the world's main trade currency for the last 50 years.

There are a lot of aspects to presently emerging world stagflation. But, compared to previous Western recessions, there is now a combined Western Bank crisis and, this time, the prospect of a very shaky USD.

In the last great world depression in the 1930s, the big difference from today was that the USD was strong, and even gold backed...and destined to become the world trade currency of the 20th century (20th century was the 1900s). The 21st century is the century of – what, the first global government?

That is not the case today. The USD is not strong. That is going to be a real problem for the world going into 2009. Thus, we have a second major difficulty the world has to overcome, what to do about the USD, to avoid a total financial disaster into 09. The world's economic weakness right now is only a foretaste of what is to come from a weak USD. A weak and possible collapsing USD means a weak/collapsing world economy.

What this USD situation means today is that the US, with all of Bernanke's willingness to use inflationary methods to combat debt deflation, is constrained by the problems that heavy inflationary methods will create for the USD going into 2009. Because the US economy is so central to the rest of the world, what limits the US limits the rest of the central banks and their economies. If the USD were not the world reserve currency, most of these problems would be confined to the US economy.

The USD is probably at a limit of stress at this moment, with interest rates at 2% and the ever present need for our trade partners to send about \$700 billion a year to us to buy US bonds of all sorts. Bernanke will cut the ground from the USD if he tries any further rate cuts. Our trade partners who are basically subsidizing the USD for their own reasons will balk. Not only that, but inflation in the US in some areas is already more than 10%, such as in food and energy. Any further rate cuts to combat the present financial disaster in the US will only allow an inflation explosion. (Yes, the USD is indeed the world reserve currency, but now that seems funny. It wasn't funny during and in the 50 years after WW2.)

If the US persists in trying to 'bail out' 'everything' the USD will collapse. Our treasury officials and the Fed are well aware of this fact. The USD is at an extremity, right now. We are at the limits of unlimited USD expansion since WW2. The US is at a crossroads with the USD system. If the US Treasury and Fed try to bail everything out, the 50 year world prosperity Jig since WW2 is up. I already heard talk by Bernanke that the Fannie Freddie mess might be nationalized.

The bailouts are not just the US. Now, every major economy is talking about massive bailouts. Their currencies will all suffer, and this post WW2 world prosperity boom is just about done for. They are going to bail out their banks, stock markets, bond markets, and economies by debasing all their currencies because they don't have the political guts to endure a serious world recession. China too....the final result will be horrific.

What would be the outcomes if the USD world financial / economic system fell apart?

Supposing the USD devalued by over 50 to 70% in a year's time, after endless attempts to save a collapsing world consumer credit economy, we may see:

- First of all, the savings of the US would drop drastically in value. That means everything from savings accounts to pensions would lose much purchasing power, and prices of every necessity would skyrocket.
- Second, our major trade partner's economies would have to do massive readjustments. They are not in a good position to do that. We can take the present rapidly spreading economic weakness of the EU zone as an example. Asia will not escape either. They will desperately try to keep their currencies from strengthening too much at first as the USD falls. This is why the USD seems to have 9 lives. These attempts to debase along with the USD allow the USD to stay higher than it would.
- World inflation will spiral out of control, lowering standards of living. Other major currencies such as the Euro and Yen will be heavily pressured as well. Until the world figures out how to actually delink from an imploding US economy, they will suffer along with the US's fate. So far, the delink theory has been shown to be completely wrong. Why? Because the world economy is tied at the hip to the USD (The delink theory is that other strong economies of Asia or the EU will be able to carry the world economy even if the US economy falls apart. So far, that has been completely discredited in this latest world economic slowdown).
- Big geopolitical turmoil as regimes combat out of control food and fuel prices.
- A war in the Middle East over oil. The Iran / Israel situation might also be called a proxy war/struggle over Mid East influence for China, the US, Russia, the EU, and Asia because energy is so expensive.
- A very possible period of insurrection, riots, shortages, and chaos in large US cities. I also believe that the EU and China and India are at risk for this too.
- A 10 year world economic depression, that China in particular cannot tolerate, as the world economy readjusts out of necessity into a totally new form, one that is less global and probably more warlike.
- Debt deflation where a rapidly dropping USD effectively wipes out outstanding debts, while the population struggles merely to exist.
- Vast bank failures in the US and major Western economies, and likely China as well.
- Efforts of world central banks to 'bail out' 'everything' resulting in their currencies falling drastically in value while inflation skyrockets, until either they learn better, or have hyperinflation and their own currency collapses after the USD falls apart. In effect they will have to either 'let go' of the USD or suffer the same fate.
- Stock markets at 10% of where they are now in 3 or 4 years if the USD actually lets go by 50% or more in 09 (nominal stock prices might actually stay higher but the devaluation of the currencies would effectively cut the purchasing power in half anyway.)
- Prices of most essentials effectively 4 times higher, worldwide.
- Big increases in energy and food prices causes many other sectors of world economies to fall apart, as all 'money' is used merely to survive.
- Gold at \$3000 to \$5000 plus and oil at \$300 plus putting a further huge crimp on world economic growth. Obviously if the USD did a real collapse, say to 10% of its purchasing power now over several years, gold is over \$10,000 and in some areas you will buy a decent house for one ounce of gold. Oil will be traded/priced in other currencies, and probably rationed in the US at a cost of \$20 or more a gallon. In this case, the present world economy that depends on cheap transportation totally devolves. Globalization becomes de-Globalization, and China either figures out how to migrate to its own domestic demand or faces a huge collapse of their export economy.
- Severe world currency restrictions and foreign exchange controls. You won't be able to move your money out of your country. Likely restrictions of withdrawals to monthly limits from bank accounts as governments attempt to deal with currency chaos.
- Rationing of necessities as the world economy enters paralysis and governments have no choice.
- One bright spot for all, the return of employment to local instead of outsourcing. Production and consumption returns to local economies, as it should have been all along. That is a long 20 year process and involves a severe deep economic depression until the world economies/economy is rebuilt from scratch compared to what it is now. Debt repudiation on a massive scale as the world emerges from the ashes (hopefully not real ashes...)
- Many new governments worldwide after revolutions during economic collapses and or wars. Democracies

falter worldwide, and more authoritarian governments appear to deal with the chaos as the democracies enter paralysis.

In case you think these outcomes are exaggerated, these are the things that happened after the French Revolution, the fall of the Roman Empire, The fall of the Spanish Empire, the Fall of Byzantium, the fall of the British Empire... etc. The fall of the US economic system, the world USD system, and the US as a superpower won't be any different. Also, a lot of these outcomes happened during and after the Great Depression of the 1930's. That all happened commensurate with the decline and fall of the British Empire and Pound that dominated world economies for 200 years, and eventually led to the USD system taking prominence after WW2 and the USD was used to stabilize the European currencies during the war.

How we reached a USD tipping point

After WW2, the US emerged as the dominant world economy and manufacturing power. Because the USD ended up being used to stabilize European currencies during the war, after the war was won the US had a lot of economic clout. Eventually, after running a bunch of fiscal deficits with the Vietnam and Korean and cold wars, the USD started to have pressure to let go of its gold standard. Once the gold standard was abandoned, the recipe was created for the US to use and inflate the USD for any and everything. The US congress happily obliged. This resulted in a world consumer and economic bubble that leads us to our present times. This led to a simulative USD world economic bubble. The result is our present indebted world economy and its imminent bankruptcy.

The rest of the world economies will try to devalue along with the USD. At some point they will be forced to let go, or they face the fate of the USD losing 50% to 90% of its value.

What will any saver in the world do?

- First of all, your currencies, retirements, bonds and annuities will be severely devalued. Your savings will be severely downgraded in purchasing power. The world governments clearly will not act until they are forced to, as they are weakened. They are going to debase your money to try to delay the inevitable economic retrenchment in a post USD centered world.
- Your primary objective might be to save any wealth you have. You will have to try to keep enough liquid wealth, cash, various currencies to be able to pay bills. You will have to reduce your financial expenses.
- You will have to try to keep wealth in paid off assets, such as non bubble real estate (yes that still exists in most parts of the world) and also maybe in gold or other precious metals. You will have to plan on currency restrictions if things get bad, and limited monthly withdrawals on your accounts, regardless of how much they have in them. You are going to experience your financial accounts being restricted and or frozen in some institutions.
- You are going to have to plan on some place you can live in if you lose your income, or that income is drastically reduced in purchasing power... preferably some modest property that is paid off.
- People will have to deal with fuel and food shortages and high costs.
- People are going to have to give up the idea of getting investment returns since risk is out of sight, and merely keeping what money/wealth they have is most important.
- You must toughen yourselves, regardless of your age or position in life.

If you do these things, you may survive without terrible hardship. But you will find some kind of hardship regardless, because that is what these kinds of times cause for anyone on the planet. You are going to have to tell your loved ones to do the same too. Families will most likely have to live together to survive. You are going to have to tell loved ones 'no' at some point if they insist on remaining in the same level that USED to be. This is all happening as we speak.

Then, hopefully, the world regains its economic footing. This all happened worldwide in the 1930's depression, and it lasted 10 long years.

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